

Guide to Construction Loans





Renovate or build your dream home with confidence







Building a brand new home from the ground up or completing major renovations on your existing home is a big step forward and one of the most exciting and rewarding experiences.

Just like you need a plan before you start any major project, you need to ensure you have the right loan for what you want to achieve with your property goals.

We have prepared this guide to give you a better understanding of the way a construction loan works. It has all the information you will need to ask the right questions, know what to expect, the pitfalls to avoid and the important considerations to keep in mind.

At any time you can contact our construction loans team and speak to a dedicated Lending Specialist who will be more than happy to work with you to find a suitable loan tailored to your requirements.

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Construction or Renovation?

Do you want to build or renovate?

There are many choices available for homebuyers and homeowners when it comes to creating their dream home. You could build a new home from scratch on a block of land you already own, buy a house and land package from a developer or renovate your existing home. Before you decide on the best path for your needs, weigh up the pros and cons, as whatever you decide will require a substantial financial and emotional commitment.

 **Tip**
To avoid any nasty surprises down the line, ask your builder for a Fixed Price Contract that includes all major costs.

A construction loan is suitable for:



House and land package

There's something unique and special about choosing your perfect house design and the block of land you want to build on and then watching your new home materialise before your eyes.

Going with a house and land package from a reputable property developer can be good value for money compared to buying an established home. Plus you can save on stamp duty with construction loans, as stamp duty is calculated on the value of the land only.

The main thing to remember is that certain factors may alter the price of the build, for example, building a house on a sloping block of land compared to a level block. Buying a project home in a new area could also limit the capital gains on your house.



Knockdown and rebuild

If you love the current street and neighbourhood you live in, then knocking down your old home to build a new one can be an appealing option.

You could release the equity in your current loan to fund the new build. Depending on your finances you may decide to go all out with an architecturally designed home tailored to your specifications and tastes. Alternatively, choosing your favourite home design from a reputable project builder may be the way to go.



Major home renovations

You may have bought your home as a couple but now have a growing family, and need more room. Maybe your property is an older style home and in need of a modern update. Renovating is a great way to add value to your home and can work out to be cheaper than selling and buying another place.

The extent of the renovations will determine if you require a construction loan. For example:

- The \$10,000 you may require to renovate your bathroom will most likely be a cash-out loan from your home equity.
- The \$250,000 you may require to carry out major structural renovations, like extending the back of the house to add extra bedrooms and a bathroom, would require a construction loan.

Can't decide whether to renovate or move?

Getting a quote from a qualified builder will give you an idea of the costs involved for your reno plans. You may also want to consult a real estate agent to find out what your property is worth in the current market. The last thing you want is to overcapitalise (where the cost of your home improvements is more than the value it adds to your property).

How to Finance Home Renovations

[READ MORE](#)



Building a new home
vs
Buying an established home

Things to consider

The process of seeing your dream home take shape, the joys of choosing the fittings and furnishings just the way you like it and finally moving into your new space is thrilling. Whether you decide to go with a new build or an established home, there are advantages and disadvantages to both and at the end of the day it comes down to your personal preference.

Buying an existing home has many benefits, including:



Usually, an established home is located in close proximity to longstanding amenities such as schools and transport.



With the right cosmetic improvements to an established home, you can add more value to the property and increase its investment potential.



You may also find that you're able to get a larger plot of land than what's offered for new builds these days.



You may get a more generous-sized backyard which is already landscaped and ready for entertaining.



The process of buying an existing home is relatively faster and you can move in quickly once the sale is finalised.

Buying a block of land and building a new home from scratch also offers its own unique benefits, including:



Building a new home and using it as an investment property allows you to claim depreciation rapidly in the first few years.



A new home will be built for more energy efficient standards and should have fewer maintenance issues, resulting in less risk and more savings.



You can build your home to your exact specifications, making it just how you want it to be.



There is far less competition when buying a block of land and building your home than buying an existing home.



Any issues and defects are covered under warranty.



How does a construction loan work?

The difference between a construction loan and a regular home loan

The main difference is that with a construction loan you don't receive the funds in one lump sum like you would with a regular home loan. With a construction loan, you can draw down or withdraw the loan balance as required to pay the builder as key stages of the building project are completed.

These payments, called progress payments, meet the ongoing costs as construction work progresses. Your contribution towards the construction cost will be used first before the loan draw down begins. That way we make sure that you have the money to cover the entire build and guarantee that it gets to completion without any problem.

How do progress payments work?

There are generally six stages involved when building a property. We will cover this in more detail later, as a guide the table below shows you when the funds will typically be needed during the project. You will have your dedicated lending specialist to guide you at every step.

This is what the schedule for progress payments would look like:

Progress payment schedule	
Deposit	5% payment
Slab/base	10% payment
Frame	25% payment
Lock up	20% payment
Fixing or Fit-out	20% payment
Completion	20% payment

You continue to save because with progressive payments you're only paying interest on the amount that has been paid to the builder, not the entire loan amount. At the start of your home building project, your repayments will be low and will gradually increase as the building project nears completion.

The valuer will organise a site inspection as needed under your loan contract before the next progress payment is approved for payment to the builder.

- **FOR RENOVATIONS:** progress inspections are **required at every stage** to ensure that the work is completed before the next progress payment can be made.
- **FOR NEW HOME BUILDS:** we generally require **progress inspections at the Frame and Completion stages** only. However, progress inspections at every stage are a requirement if the home being built is in a different state than the one you're living in.

How Can a Construction Home Loan Help You

[READ MORE](#)

What you will need to value your new home build

To ensure that you're borrowing a realistic loan amount and that you have enough to get the job completed we'll need a property valuation done. There are no application fees for our construction loans, plus you get a **free valuation of up to \$300**.

It's imperative that you lock in all construction costs with your builder – who must also be qualified to undertake the project. As well as the usual documentation for a home loan application, you'll also usually need to supply the following documents before construction commences:

- Council approved plans and building specifications
- Progress payment schedule
- Fixed price building contract with a licensed builder (signed and dated)
- Builder's indemnity insurance (or builders public liability insurance)
- Homeowners' warranty insurance (if applicable)



How to find the right builder for your home project:

- Get a number of quotes from builders and compare them. If there is a large variation between quotes, ask them to re-quote with a better price and include more details.
- Ask your builder for a list of references and if possible, drive past and see their work. Check with past customers how they found the experience and the quality of their work.
- Check that your builder has all the necessary qualifications and insurance policies (such as indemnity insurance, public liability insurance and warranty insurance) to carry out the construction work.

Find a Builder

Master Builders Association
Housing Building Association

<https://www.masterbuilders.com.au/home>
<https://hia.com.au/>



IMPORTANT NOTE:

Should you or your builder require changes after construction starts, a good tip is to pay for the changes yourself, if you can. That could mean taking out a small personal loan, or even using your credit card to make up any difference. If the changes are large, you will probably end up negotiating with your bank or lender, and any changes to your loan may take time, sometimes weeks or months. The last thing you want is for construction to be delayed, so let your lender know as soon as possible.



Your finance options

Organising your finances

A lot of planning goes into building a new home. Looking at the real estate market and making a decision to build is the first big decision, which is quickly followed by a lot of other decisions around the type of home, location, size, and then decisions around features and fixtures. It's also important to plan when it comes to the type of loan you may need. You have a couple of options to choose from to help fund your construction or renovations:



Loan top-ups with equity

You're starting off with an advantage if you've been paying off a home loan for a while. Equity is the difference between the current market value of your property and the balance amount of your home loan. The longer you've had a loan the larger your equity is likely to be. Accessing this equity can help fund your new home build or cover the cost of major home renovations without the need for having a stash of savings in a bank account.



Construction Loan

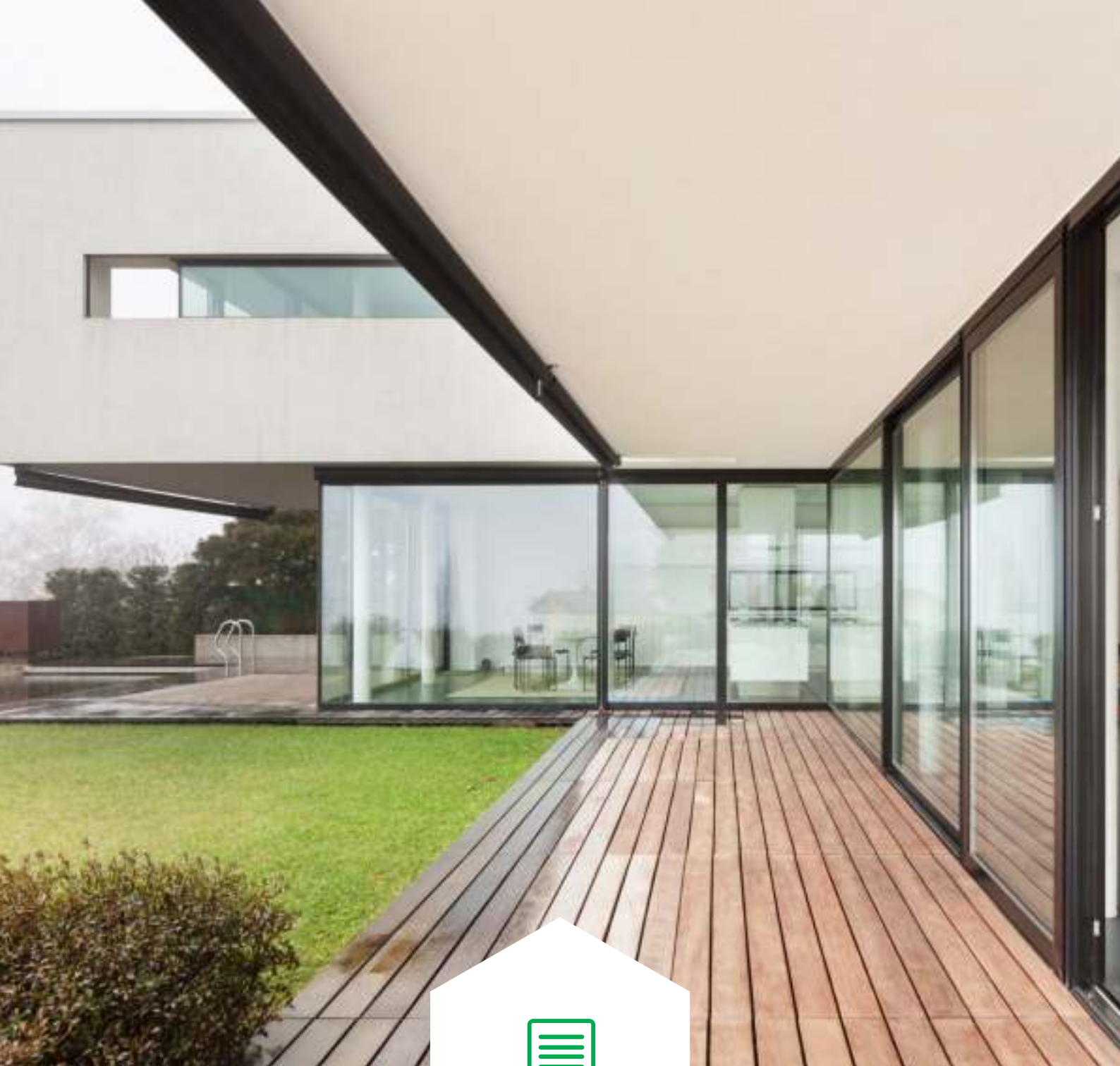
This is a good option for first home buyers and those who have been saving a deposit towards building their dream home or buying a house and land package. Having at least a 20% deposit will save you a substantial amount in the form of the Lenders Mortgage Insurance (LMI) premium, which has to be paid on top of the loan amount if you're borrowing more than 80% of the amount.

Owner-builders, beware of the potentially high risks involved

TV shows like *The Block* and *House Rules* may make it seem like taking on a building project yourself is easy. The reality is that inexperienced owners trying to do work themselves could be in for a lot of stress and heartache if things go wrong, and more often than not the construction goes over time and runs way over budget.

While you may know the general specifics of building a house, you may miss out on the intricate and often critical details that only a reputable builder with years of experience knows. Whatever your motivation, be it to save money or enjoy the satisfaction of physically building something yourself, it's best to reconsider your decision and go with a Fixed Price Contract loan with a builder.

In some circumstances we can assist you with a Construction Loan if you are an owner-builder. To see if you qualify, please contact our office on 133 144.



The six stages of building a new home

Stagger the drawdown of your loan in six stages of completion at no extra cost

As mentioned earlier, once your loan is approved, the funds will be provided in six draw downs - **at no extra fee**. This free service protects both you and us and is made at six important stages of construction once there is proof the agreed work has been completed.



Deposit

This is the initial payment made to the builder, authorising them to commence work after all the preparations have been organised. Your personal contribution will be used first before your loan draw down begins.



Slab (or base floor)

At this stage, the site for your home is prepared. This may include leveling the block of land, constructing retaining walls and laying down the initial plumbing before the concrete slab is poured and the foundation of your home is set.



Frame

This is where your new home starts taking shape as the wooden beams go up for the walls, roof trusses and windows. As the skeleton goes up you get an idea of how your home will look.



Lock up

This is always an exciting stage as you can see your home beginning to take shape. The external walls and the roofing is complete, and the windows and doors will be installed so that your home is weatherproof and can be locked securely.



Fit out

This will see the installation of your choice of fixtures, bench-tops and appliances, walls painted, flooring and laundry installed. By now you'll be eager to move into the new building and make it your home!



Completion

This stage sees you on the home run, with only the finishing touches remaining like installing appliances and furnishings or landscaping (if included in your building contract). Once these are finished, your builder will take you through your property to ensure everything is completed to your satisfaction. Your local council representative may inspect your home one last time to check that it complies with the relevant building codes.

Good to know:

Always keep us in the loop on the construction progress. Every time you visit the building site and take photos on your smartphone, send it to your dedicated Lending Specialist and always include them in all communication with your builder.



Don't be caught out by often overlooked expenses

Sail through with your finances in good shape

It's highly recommended that you factor in a little extra to cover unexpected building costs, so that your new construction project is completed with your finances intact.



Soil tests

This is a council requirement before a build can commence. A soil test determines how much the soil expands and shrinks with changes in moisture content. Your builder will then need to design your home's foundation to ensure it can cope with the type of soil and possible movement.



Contour survey

A contour survey shows the elevation (or changes in height) of your land at various points. The flatter the area, the easier and cheaper it is to build on. A sloping block may require leveling or excavation by specialist building teams, which can send the cost soaring.



Sustainability features

Adding eco-friendly features like solar panels, water tanks and thermal insulation may add to the initial cost but can lower utility bills, and potentially enhance your home's market value.



Landscaping and driveways

It can come as a surprise to find that your finished home doesn't come with landscaping, a driveway or even a mailbox – extras that can quickly add up in costs.



Upgrades

The base price of a home will often NOT include the finishes you see when you're visiting the display homes. First check what's included in the base price and be prepared to pay more for upgrades like wooden floors instead of tiles, marble kitchen bench-tops and other finishes.



Variations

Even minor changes to a builder's plans can bump up the build price, especially if you're after major structural changes. It's best to have any modifications costed and finalised before construction begins so that it's all covered in the Fixed Price Contract.



Appliances & Fixtures

Be sure to check if any appliances are included in the cost of your home, to gauge what you will have to buy. It is also worth checking that your existing appliances fit in the spaces provided in your new home.



Unforeseen delays

A shortage of tradies, late delivery of materials and wet weather can often delay building work. This can most likely impact your budget if you're renting while your new place is under construction. It's better to allocate a little extra in your budget for such eventualities.



What happens after
your home is built

Welcome to home, sweet home

The moment you've been waiting for finally arrives! You get the keys to your house and you're ready to move in, celebrate with family and friends and make it your home.



Final formalities and handover

The valuer will organise a final inspection of the property and complete a final valuation before we make the last progress payment to your builder. The builder's insurance covers you during the construction phase, and now that the construction is complete you will need to have your building insurance in place before you can receive the keys to your home.

You'll need to provide final documents to complete the sign-off process, and then you can start enjoying your new space.

These include:

- A 'Certificate of Occupancy' which shows the building is safe to live in.
- Your builder's final invoice.
- A comprehensive building insurance policy with your lender noted as Mortgagee.



Your construction loan continues as a standard home loan

Once we have made the final payment to the builder, your loan will automatically continue as a home loan with principal and interest repayments for example, if that was your original arrangement. This is a free service and we'll take care of it from our end so you don't have to do a thing.

Depending on your lifestyle needs and financial commitments, we may also have other options available such as switching to a fixed rate may be available for up to 5 years. Alternatively you may opt for a split loan to manage, with or without additional fees.

Whatever your loan amount, and whether you're after an owner-occupied or investor wanting to borrow to build, our experience of more than 30 years means we can help you find what you are looking for.



Building with
our construction loan

Build your dream home with a purpose-built Mortgage House construction loan

We'll support you from start to finish during your construction project.



Get a pre-approval to know your set budget

Construction loans as you know operate slightly differently than traditional mortgages on an existing property. Our Construction Loan Specialists can help you get conditional or pre-approval for the construction loan and the mortgage that will replace it once the construction is complete.

You will need to bring the following types of documents into your meeting with one of our Construction Loan Specialists:

- Copies of your current payslips and other income you receive like rental income or pension payments.
- Copies of your current liabilities like home loans or credit card debt.
- A detailed budget showing your living expenses and savings.
- Current and past employment and address history for the last two years.



Pick the house design that works for you

Once you decide that you'd like to build your dream home, get a valuer to determine if the quoted land and construction costs are reasonably priced for the area. They will provide us this information with the returned valuation.

Next you'll want to do the following:

- Arrange an in-person inspection of the building site.
- Write up your offer to purchase, conditional on approval of your Fixed Price Contract/ construction loan and the results of the inspection.
- Negotiate a 10-day time period in which you can complete an inspection and receive your loan approval.



Ask for a Fixed Price Contract

Construction loans are also known as Fixed Price Contracts. We lend a fixed amount to cover the cost of construction but retain the funds for you.

Mortgage House then will make progress payments to your building contractor on your behalf as your contractor finishes each stage of the project. Most loans cover construction over a 12-month period and then continue as a home loan upon completion of the project.

Your building contract should contain:

- Start and end dates for construction.
- Your name and the name on your contractor's licence card and the licence number.
- The contract price.
- A cooling off period.
- Detailed building plans and specifications.
- Insurance details (particularly warranty insurance).
- Costings and dates of progress payment schedule.

Generally, this type of loan covers only construction costs, not the cost to purchase land. However, we have many loan products to help you purchase the land as well.

Get the most from your home build

Our top tips will point you in the right direction:

1

Pre-approval

Pre-approval will give you an idea of how much you can spend on your construction costs before you waste time looking at homes or committing to renovation plans you won't be able to undertake!

2

Check your builder

Ensure your builder has the necessary qualifications, a valid building license, and that no claims have been filed against them. The building licence office of your state should be able to help you with this.

3

Insurance

You will need to have arranged insurance to cover the full replacement value if something goes wrong. The insurance policy will also show the lender your mortgage is held with. Once this is done you should request a Certificate of Currency, which you can hand to your lender.

You should also ensure that your builder or building company has arranged for public liability insurance, indemnity insurance and other coverage before starting the project.

4

Fixed Price Contract

It's recommended you get a Fixed Price Contract with your builder to avoid any nasty surprises down the line.

5

Buy now, build later

Lenders often set a maximum time-frame for the complete draw down of your loan. At Mortgage House, the time frame is usually a maximum of 12 months. If you are planning to build later, the land may need to be purchased separately under a land loan.

Fast track your way into your dream home

Get started and APPLY ONLINE within minutes.

APPLY ONLINE



Less paper work & waiting time



Complete the form in 15 minutes



Save & come back later



We Answer Your Questions

You're not alone and can count on our experience helping thousands of Australians just like you with construction loans. Here are some frequently asked questions answered.

How does the Lender know to pay the builder during the construction phase?

- When the builder sends you an invoice, you will complete and sign a drawdown request form which can be requested from your lender.
 - Send the completed form along with the invoice to your dedicated Construction Loan Specialist.
 - The lender may require a valuation to check that the work has been completed to the milestone.
 - Funds will be advanced to your builder.
-

What if amendments and extra costs come up during construction?

While it's best to have a Fixed Price Contract from your builder, there can be many instances where variations may arise during the build and you don't have the required funds. Once construction has begun the loan cannot be increased or changed, and in such cases, the best way to get a hold of funds might be an additional personal loan or put it on your credit card as a temporary measure.

How much time do I have to build my home after settlement?

You usually have up to 12 months from the date of settlement to complete the construction. Once construction is complete, your construction loan will continue as normal with a move to the original repayment arrangement.

What if my builder or building company goes bankrupt?

Builders are required to have insurance. You will be able to appoint another builder subject to your lender's approval to complete the work. In normal circumstances, the insurance company normally pays any difference in costs.

What if the house has gone up in market value once completed?

In this case, you could get a revaluation done after completion and potentially leverage the equity to start or grow your property investment portfolio.

How do I find out which builder or building company to trust?

Check with the Master Builders Association or Housing Industry Association if you're not sure which builder or company to trust with your project.

Construction Loan Application Checklist

Preparing documentation for your construction loan

From your previous experience you will know that taking on a mortgage is an involved process. Lenders need to verify your identity and financial standing. It's a good idea to get your finances in order at least six months before you apply for a home loan to demonstrate that you will be able to honour the loan repayments throughout the life of the loan.



Photo identification



Tax Returns for the previous two years



Payslips for the previous three months



Bank statements for the previous six months

Why Mortgage House?

We are a leading Australian non-bank lender

Mortgage House is one of Australia's most awarded Lenders. We've been in business since 1986 and we'll be only too happy to share our industry experience with you.

We provide a number of unique mortgage solutions that the banks find hard to match. Our super-low interest rates and extensive range of loan options means there's a loan suited to every person. With one-on-one support, our expert Lending Specialists will help find you a suitable loan option for your construction needs.

Here's why we're the best choice for your construction loan:

- We don't have to maintain an expensive nationwide branch network. Less overheads for us means competitive low rates for you.
- We're 100% digital and our Apply Online process is streamlined for prompt processing so you won't drown in a sea of paperwork.
- We're big enough to offer you our own products. Unlike banks, we're small enough to care about your needs.
- You will have a direct team to discuss the progress payments as the lending and construction teams are in the same office.



Award Winning

We're one of Australia's most awarded non-bank lenders



Experienced

We've helped Aussies achieve homeownership since 1986



Approachable

Expert lenders who'll get you there without the mortgage jargon



Innovative

Our innovative online services will save you time & effort



☎ 133 144

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